Form C 196

Railway Business Association

CATECHISM ON RAILWAY LEGISLATION

Citizens who concur in the need for action as here set forth can aid by handing or sending this catechism with approval to some Senator or Representative. The most impressive message is a letter enclosing the leaflet. Next best is to write and sign a phrase or two on the leaflet in the space below. Address members of Congress Senate or House, Washington, D. C.

(Signature)

Name and Title

Company

Street, Number, City

REQUESTS FOR COPIES

of this leaflet will be welcome from all those desiring to place it in the hands of their representatives or friends. Copies furnished or sent direct to lists upon application to Frank W. Noxon, Secretary Railway Business Association, 30 Church Street, New York.

RESTORATIVE RAILWAY LEGISLATION

Catechism on Some Provisions Needed in the Cummins and Esch Bills to Make the Government Responsible for the Results of its Own Regulation

Q. DOES the existing Interstate Commerce Act provide that rates taken as a whole shall be such as will yield revenue sufficient for necessary expenses and for the credit basis of adequate facilities? A. No. It merely provides that each individual rate shall be just and reasonable.

Q. Has not the Interstate Commerce Commission hitherto considered rates as a whole in determining readjustments for revenue? A. Yes. Authority to do this was inferred.

Q. Cannot the Commission, without any new legislation, infer such authority in the future? A. No. The House eliminated a rule of rate-making from the Committee Bill. What a legislative body has refused to enact cannot be inferred.

Q. Does not the Cummins Bill extend jurisdiction to cover ascertainment of "adequacy of the rates for revenue purposes for any one district and the carriers therein as a whole," and contain several provisions intended to define adequacy? A. Yes, but nowhere does it say in plain words that necessary expenses and the credit basis for adequate facilities are to be the legitimate purposes for which rates are to yield sufficient revenue.

RATE OF RETURN

Q. DOES not the Cummins Bill prescribe an income equal to 5½% upon the value of the property, and is not this fair? A. The investor does not buy securities because somebody else considers the income fair, but because he himself considers it attractive. Nobody knows whether 5½% will be attractive in one or another condition of the credit market. Nobody knows, either, what changes successive Congresses would make in such a figure in the statute. The mere threat of candidates that if elected they would favor a reduction in the rate would chill the investor. Action of an administrative agency, charged by Congress with the duty of ascertaining what is an attractive return and with permitting such return, would be much less exposed to politics. This would promote stability in the sanctioning of adequate income; and nothing else will go so far as this to inspire investors with confidence.

Q. Would not this give income even to roads poorly located and badly financed or managed? A. Not if revenue were prescribed to be adequate only for the average road.

Q. If income is to be adequate for the average road will not roads

Digitized by the Internet Archive
in 2017 with funding from
This project is made possible by a grant from the Institute of Museum and Library Services as administered by the Pennsylvania Department of Education through the Office of Commonwealth Libraries

https://archive.org/details/catechismonrailw00john

stronger than the average earn too much? A. Earnings cannot be declared too much so long as they attract capital no more than sufficient for normal national development.

Q. Is not some limit on earnings desirable and are not the users of weak roads entitled to service which cannot be given on earnings adequate for the average road? A. Permissive consolidation will go as far as is wise in accomplishing both these purposes. Mergers will bring down the average need (which should be the standard of rate regulation). This will automatically limit earnings. Mergers also will tend to eliminate weak lines. Receiverships are constantly operating in the same general direction. No direct limitation upon earnings can bring benefits remotely compensating for the abandonment of the traditional American policy of rewards for economy, efficiency and enterprise on the one hand and deprivation for wastefulness, bad management and lack of enterprise on the other.

ESTIMATED NEEDS

Q. SINCE nobody can know how the volume of tonnage and hence how the earnings will be affected by the rate readjustments themselves or by business conditions, will it not be impracticable to fix rates which will certainly produce a specified estimate? A. Not if rates are to produce the required revenue "as near as may be" and if in good years surpluses are to be permitted for maintenance of an average income through the decade.

Q. Will it not be impossible for the government to estimate transportation needs and the cost of meeting them in advance? A. Every individual railway has to make such advance estimates, and for periods of years, since many construction projects consume years in completion.

Q. Who is to judge what are the transportation needs of the country? A. The governmental agency which sanctions security issues. Such agency therefore must have the power and the responsibility for completing the transaction by sanctioning rates under which carriers can sell the securities which have been declared necessary.

SAFETY FIRST

Q. WILL not the Interstate Commerce Commission estimate transportation needs and the cost of meeting them without being instructed so to do by law? A. Nobody knows. It never has. Safety requires that this duty be made obligatory.

Q. Will it not be impracticable for the Commission to ascertain the rate of return necessary to allow in order to attract capital? A. Individual roads must and do ascertain this. One proposal is that the Federal Reserve Board ascertain from time to time the necessary rate of return. If the government is to sanction certain security issues as being for purposes necessary to the public it must sanction a credit basis definitely ascertained.

REQUISITES FOR IMPROVED SERVICE

Q. IS there any prospect that the resumption of corporate operation will bring better service to the public than under government control? A. A considerable time will be consumed in re-establishing channels of traffic and spirit and discipline of employees and in adjusting executive officers to company organizations disrupted under government control. If in addition the roads have empty treasuries and

eeble credit, restoration of the American-standard service will be till more sluggish. Aspects other than the rule of rate-making with which Congress must deal may be classified as transition provisions and permanent provisions:

Transition Provisions

Extension of the standard return for whatever period may prove to be required for adjustment of revenue to costs.

Creation of a revolving fund from which the roads may borrow capital immediately needed to serve the public in case investment market conditions continue unfavorable, the amount to be equal to estimated needs.

Refunding of carriers' capital debts to the government into long-time securities on equitable terms.

Permanent Provisions

Prohibition, except by federal authority, of stock and bond issues, construction of new lines and consolidations.

Development of waterways and their coordination with railways, while the water facilities heretofore acquired or created by the government are continued.

Establishment of federal jurisdiction over minimum as well as maximum rates except insofar as they affect port-to-port hauls of water carriers and over all other rates of instrumentalities of interstate commerce which may be made subject to the Act.

Establishment of such methods for giving justice to employees that strikes and threats of strikes may be obviated.

But all these provisions will be futile without this—that Congress, both for the transition period and permanently, shall **prescribe the systematic and continuous ascertainment of transportation needs and the capital requirements thereof, periodically announced, and shall definitely assign the duty of permitting revenues proportioned to the requirements so announced.** By such means only can the carriers be enabled to re-establish, maintain and improve the American standard of service to which our business and agriculture are accustomed.

ALBA B. JOHNSON, *President.*

FRANK W. NOXON, *Secretary.*
30 Church Street, New York.
Jan. 7, 1920.